

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

STAFF REPORT

ISSUE: Staff recommends that the Board of Directors (Board) authorize a two-year extension of the auditing services contract with Macias, Gini & O'Connell LLP (Macias) for the audit of the I-Bank's financial statements for the years ending June 30, 2012 and 2013.

BACKGROUND: The I-Bank has issued three series of revenue bonds totaling \$152.5 million since March 2004 to provide additional funding for the Infrastructure State Revolving Fund (ISRF) Program (ISRF Program Bonds). The most recent issue was in September 2008. I-Bank must issue audited financial statements in connection with the sale of its ISRF Program Bonds for two reasons. First, the disclosure documents distributed in relation to the sale and issuance of the ISRF Program Bonds must include information about the financial status of the ISRF Program. Second, continuing disclosure agreements entered into by the I-Bank in conjunction with the issuance of each series of ISRF Program Bonds require the I-Bank to provide annual audited financial statements to the ISRF Program Bond trustee and to each Nationally Recognized Municipal Securities Information Repository so long as the ISRF Program Bonds are outstanding.

Through Resolution No. 09-17, Macias was appointed as the I-Bank's audit firm in 2009 to perform the audit of the I-Bank's financial statements for the three years ending June 30, 2009, 2010, and 2011. Prior to Macias, Gilbert Associates, Inc. served as the I-Bank's audit firm for five years. The I-Bank entered into a contract with Macias on June 1, 2009, for audit services for the three fiscal years mentioned above, with a contract expiration date of June 30, 2012. (See Attachment A—Staff Report Dated April 29, 2009, and Resolution No. 09-17 for a description the audit firm selection process and recommendation, and the Board approval of the selection of the Macias firm and contract authority.)

The I-Bank approved and adopted an Audit Procurement Policy in Resolution No. 07-12 that states, among other things, the contract with the selected independent auditor shall be for a term not to exceed five years. (See Attachment B—Resolution No. 07-12.)

Firm Qualifications and Experience. Macias is a certified public accounting and consulting firm with 6 offices throughout California. Founded in 1987, Macias is a full-service firm with a staff of over 230 highly skilled professionals offering auditing, tax, accounting and management consulting, and business management services to governmental entities, nonprofits, corporations, partnerships and individuals. The firm's Sacramento office has 6 partners, 6 directors, 1 senior manager, 11 managers and 9 senior associates with a staff of 57 full-time professionals available to perform the scope of services under the current contract.

Macias audits more top California public agencies than any other firm. Currently, the firm is the principal auditor for 6 of the top 10 California cities - San Diego, San Jose, San Francisco, Sacramento, Oakland and Santa Ana - and has served the State's largest city, Los Angeles, for more than 10 years, helping the city win its first ever Certificate of Achievement for Excellence in Financial Reporting for a Comprehensive Annual Financial Report. Currently, the firm is the principal auditor for the California Public Employees' Retirement System (CalPERS) and in 2010 completed a seven year contract as principal auditor for the California State Teachers' Retirement System (CalSTRS). Macias' governmental practice is one of the largest in the U.S. and the firm offers unmatched resources in serving this highly complex sector, with specialists who are dedicated to year-round service. In California, the firm's local government specialists have served over 100 cities, over 20 counties and more than 200 special purpose units of government.

Satisfactory Service. The I-Bank staff has been satisfied with the service it has received from Macias during the current contract period. Their work was done in a professional manner and they completed the audits on time. This, in turn, allowed the I-Bank to meet its annual report filing and disclosure deadlines.

Audit Contract Extension Proposal. In June 2011, Macias submitted a written proposal for a two-year extension of its current contract for the preparation of the I-Bank's financial statement audit for the fiscal years ending June 30, 2012 and 2013. If the I-Bank Board approves an extension of the current contract, Macias has proposed to decrease the Fiscal Year 2010/11 contracted flat fee of \$58,430 to the Fiscal Year 2009/10 contracted fee amount of \$56,160. In addition, Macias proposed to further reduce its flat fee for each of the two additional fiscal years covered during the contract extension period to \$50,000 each year.

Under the current contract, Macias' fees for performing the audit of the I-Bank's financial statements for the three fiscal years are as follows:

	Fiscal Year 2008/09	Fiscal Year 2009/10	Fiscal Year 2010/11	Total
Audit	\$50,000	\$52,000	\$54,100	
Management Letter	\$ 4,000	\$ 4,160	\$ 4,330	
Total Fee	\$54,000	\$56,160	\$58,430	\$168,590

According to Macias, the I-Bank's acceptance of its proposal would save the I-Bank approximately \$26,000 over the three year period. Macias' fees would be paid from accounts held by the trustee for the ISRF Program Bonds and other accounts pertaining to the ISRF Program Bonds.

Audit Contract Extension Justification. Staff has determined that it is advisable to extend the existing audit contract with Macias for the following reasons:

- Macias is already familiar with I-Bank's programs, processes and internal controls. Since a significant amount of staff time is needed to bring a new audit firm up to speed on the I-Bank, its programs, and accounting policy, procedures

and records, staff believes it would be most efficient to continue with the firm as compared to hiring a new audit firm that is not familiar with the I-Bank's accounting processes and procedures.

- Extending the Macias contract an additional two years will also likely provide dollar savings since the firm is proposing to lower the fee for the 2010/11 audit to the 2009/10 audit fee amount, and to further lower the fee for the two additional audit years to an even lower price. Staff notes however that the cost savings cited in the Macias proposal cannot be confirmed without staff conducting a new request for proposal and selection process, which could result in audit costs higher or lower than the Macias proposal. Since it is likely that audit prices have risen in the years since the commencement of the Macias contract, staff believes that it is reasonable to accept the Macias contract extension proposal with its per audit reduced fee structure.
- Entry by the I-Bank into the proposed two-year audit contract extension would result in a five-year contract with the same audit firm. A five year audit contract is consistent with the Government Finance Officer Association's recommended audit procurement best practices that state governmental entities should enter into multi-year agreements of at least five years in duration when obtaining the services of independent auditors. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain "startup" costs over several years, rather than over a single year.
- The request for qualification process and staff report pursuant to which Macias was selected contemplated a contract extension of up to two years upon approval by the Board.

RECOMMENDATION: Staff recommends approval of Resolution 11-18 appointing Macias, Gini & O'Connell to act as the I-Bank's auditor for fiscal years 2011-2012 and 2012-2013, and authorizing the Executive Director, in a manner consistent with this report, to execute an amendment of the contract with Macias, Gini & O'Connell LLP for auditing services to extend the contract term to June 30, 2014 and, accordingly, increase the maximum contract authority for this contact to an amount not to exceed \$266,320.

Attachment A

Staff Report Dated April 29, 2009
and
Resolution No. 09-17

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

STAFF REPORT

ISSUE: Staff recommends that Board of Directors (Board) appoint Macias, Gini and O'Connell LLP (Macias) to act as I-Bank's auditor for fiscal years 2008-2009, 2009-2010 and 2010-2011, and that the Board authorize a contract for auditing services with Macias for this period and for a further period of two years if approved in the future by the Board.

BACKGROUND: I-Bank has issued three series of revenue bonds totaling \$152.5 million since March 2004 to provide additional funding for the Infrastructure State Revolving Fund (ISRF) Program (ISRF Program Bonds). The most recent issue was in September, 2008. I-Bank must issue audited financial statements in connection with the sale of its ISRF Program Bonds for two reasons. First, the disclosure documents distributed in relation to the sale and issuance of the ISRF Program Bonds must include information about the financial status of the ISRF Program. Second, continuing disclosure agreements entered into by the I-Bank in conjunction with the issuance of each series of ISRF Program Bonds require the I-Bank to provide annual audited financial statements to the ISRF Program Bond trustee and to each Nationally Recognized Municipal Securities Information Repository so long as the ISRF Program Bonds are outstanding.

Gilbert Associates, Inc. (Gilbert) was selected as I-Bank's first audit firm in 2004, and served in that capacity for five years. I-Bank staff has been satisfied with the service it has received from Gilbert during this time. The I-Bank's contract with Gilbert expired on June 30, 2008.

On March 5, 2009, I-Bank staff issued a Request for Qualifications (RFQ) seeking proposals from auditing firms interested in providing bond-related auditing services to the I-Bank. This RFQ was distributed directly to 41 firms and posted to the State of California Contracts Register. The following three firms responded to the RFQ by the April 6, 2009, RFQ due date: Macias, Gilbert; and Maze & Associates (Maze).

The three responses received were reviewed by a committee consisting of the Assistant Executive Director and two I-Bank managers familiar with the auditing requirements related to the ISRF Program Bonds or having state and private sector accounting expertise. Based upon the selection process criteria of the RFQ, which were: the firm's qualifications and experience; the competitiveness of the proposed fees; and, the overall quality of the written response to the RFQ, the review committee selected Macias.

Firm Qualifications and Experience. Macias was founded in 1987 as an LLP and has one of the largest public sector accounting practices in California. They have offices located in Sacramento. The firm has 6 partners, 6 directors, 1 senior manager, 11

managers and 9 senior associates and a staff of 50 full-time professionals in the Sacramento office available to perform the scope of services in the RFQ. Macias has proposed the assignment of highly qualified staff to the I-Bank with expertise in auditing State government entities.

According to the proposal, Macias has audited the financial statements of 6 State entities including the California Public Employment Retirement System (CalPERS) and the California State Teachers Retirement System (CalSTRS) in the last 3 years. In addition to its experience auditing State entities, Macias has audited in the last three years the financial statements of numerous cities and counties in California including but not limited to the County of Sonoma, Cities of Sacramento, Stockton, San Diego and San Jose among others. All of these municipal entities were identified as having issued revenue and/or general obligation bonds, certificates of participation or other types of bonds.

Competitive Fees. Macias' fees for performing the scope of services outlined in the RFQ will be based on a "per report" fixed amount for each year's audit. The total all-inclusive fee will not exceed the following:

	Fiscal Year 2008/2009	Fiscal Year 2009/2010	Fiscal Year 2010/2011	Total
Audit	\$50,000	\$52,000	\$54,100	
Management Letter	\$ 4,000	\$ 4,160	\$ 4,330	
Total Fee Proposal	\$54,000	\$56,160	\$58,430	\$168,591

Macias' fees were lower than the other two firms that responded to the RFQ. Macias's fees will be paid from accounts held by the trustee for the ISRF Program Bonds and other accounts pertaining to the ISRF Program Bonds.

Overall Quality of Written Response. The Macias firm's written response was comparable in overall quality to those of the other responding firms.

RECOMMENDATION: Staff recommends approval of Resolution 09-17 appointing Macias, Gini and O'Connell LLP to act as the I-Bank's auditor for fiscal years 2008-2009, 2009-2010 and 2010-2011, and authorizing the Executive Director to execute a contract on behalf of the I-Bank for auditing services with Macias for this period that is consistent with the terms of this report.

RESOLUTION NO. 09-17

RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK APPOINTING A FIRM TO PROVIDE AUDITING SERVICES

WHEREAS, the California Infrastructure and Economic Development Bank (the "I-Bank") was established pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 et seq.), as now in effect and as it may be amended or supplemented (the "Act"); and

WHEREAS, the I-Bank has issued \$152,545,000 par amount of Infrastructure State Revolving Fund ISRF Program Bonds (the "ISRF Program Bonds"); and

WHEREAS, the Continuing Disclosure Agreement for the ISRF Program Bonds requires the I-Bank to provide annual audited financial statements commencing with the fiscal year ended June 30, 2004, to the trustee for the ISRF Program Bonds and to each Nationally Recognized Municipal Securities Information Repository so long as the ISRF Program Bonds are outstanding; and

WHEREAS, the Act authorizes the I-Bank to employ attorneys and financial consultants in connection with the issuance and sale of bonds; and

WHEREAS, the Act provides that Section 10295 and Sections 10335 to 10382, inclusive, of the Public Contract Code ("Public Contract Code Provisions") shall not apply to agreements entered into by the I-Bank in connection with the sale of bonds or notes; and

WHEREAS, on March 5, 2009, the I-Bank issued a Request for Qualifications for auditing services and received three responses that have been reviewed by staff; and

WHEREAS, staff recommends the appointment of Macias, Gini and O'Connell LLP as auditor for the I-Bank; and

WHEREAS, the proposed appointment is in connection with the sale of bonds and therefore the Public Contract Code Provisions do not apply.

NOW, THEREFORE, the Board of Directors of the California Infrastructure and Economic Development Bank does resolve as follows:

Section 1. The above recitals are true and correct.

Section 2. The I-Bank hereby appoints Macias, Gini and O'Connell LLP as auditor for the I-Bank.

Section 3. The Executive Director is hereby authorized to approve and enter into a contract with Macias, Gini and O'Connell LLP consistent with the Request for Qualifications to audit the I-Bank's financial statements for the years ending June 30, 2009, 2010 and 2011.


Section 4. This resolution shall take effect from and after its adoption.

PASSED, APPROVED AND ADOPTED at a meeting of the California Infrastructure and Economic Development Bank on April 29, 2009, by the following vote:

AYES:	BONNER, SHEEHY, LUJANO, AGUIAR, RICE
NOES:	None
ABSENT:	None
ABSTAIN:	None


Stanton C. Hazelroth, Executive Director

ATTEST:


Roma Cristia-Plant, Secretary

Attachment B

Resolution No. 07-12

RESOLUTION NO. 07-12

**RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE
AND ECONOMIC DEVELOPMENT BANK APPROVING
AND ADOPTING A POLICY FOR AUDIT PROCUREMENT**

WHEREAS, the California Infrastructure and Economic Development Bank (the "I-Bank") was established pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 et seq.), as now in effect and as it may be amended or supplemented (the "Act"); and

WHEREAS, pursuant to terms of the bonds issued related to the I-Bank's Infrastructure State Revolving Fund Program, the I-Bank is required to conduct and submit independent audited financial statements; and

WHEREAS, the Act authorizes the I-Bank to engage the services of consultants to render professional and technical assistance; and

WHEREAS, the Act provides that Section 10295 and Sections 10335 to 10382, inclusive, of the Public Contract Code shall not apply to agreements entered into by the I-Bank in connection with the sale of bonds or notes; and

WHEREAS, I-Bank has previously hired auditors following a request for qualification process; and

WHEREAS, the I-Bank has determined a need to establish and formalize its audit procurement practices by adopting a policy as set forth in Exhibit A attached hereto.

NOW, THEREFORE, the Board of Directors of the California Infrastructure and Economic Development Bank does resolve as follows:

Section 1. The above recitals are true and correct.

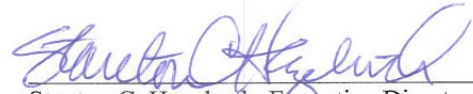
Section 2. The I-Bank hereby approves and adopts the audit procurement policy attached hereto as Exhibit A (the "Audit Procurement Policy").

Section 3. The Board of Directors hereby directs and authorizes the Executive Director to implement the Audit Procurement Policy.

Section 4. This resolution shall take effect from and after its adoption.

PASSED, APPROVED AND ADOPTED at a meeting of the California Infrastructure and Economic Development Bank on April 24, 2007 by the following vote:

AYES:	HEIDIG, ROSENSTIEL, SHEEHAN, MARIN, RICE
NOES:	None
ABSENT:	None
ABSTAIN:	None


Stanton C. Hazelroth, Executive Director

ATTEST:


Roma Cristia-Plant, Secretary

EXHIBIT A

AUDIT PROCUREMENT POLICY

1. An auditor selection committee shall, at a minimum, consist of the Executive Director, the Assistant Executive Director, and the Managers of the Credit Support Unit, ISRF Program and the Bond Financing Programs.
2. The auditor selection committee shall be responsible for the following:
 - a. Ensure that a request for qualifications (RFQ) process for the selection of an independent auditor at or near the end of the term of each audit contract be conducted;
 - b. Actively seek the participation of qualified firms, including the then current auditor, assuming that the past performance of the then current auditor has proven satisfactory;
 - c. Shall structure the selection process outlined in the RFQ so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit; and,
 - d. Shall submit its selection recommendation to the I-Bank Board.
3. In no case shall price be allowed to serve as the sole criterion for the selection of an independent auditor.
4. Upon Board approval of the auditor, a contract will be executed with the selected firm to provide independent audits of the I-Bank and its funds.
5. The contract with the selected independent auditor shall:
 - a. Include a scope of audit work that reflects the fair presentation of the basic financial statements of the I-Bank and its individual funds.
 - b. Require that the auditor conform to the independence standard promulgated in the General Accounting Office's *Government Auditing Standard*.
 - c. Be for a term not to exceed five years.
 - d. Contain supplemental nonaudit services consistent with current governmental accounting rules upon the election of the auditor selection committee.